INDEX

	Page
Statement	1
The Government's interest in the questions presented by the appeal	6
Discussion:	
I. The district court had jurisdiction to require USG to dismiss its pending suits against its former co-defendants	9
II. The scope and force of the patent misuse doctrine, in relation to the requisite showing of purge	13
Conclusion	17

CITATIONS

Cases:	
Automatic Radio Co. v. *Hazeltine, Inc.*, 339 U. S. 827	14, 15
B. & B. Chemical Co. v. *Ellis*, 314 U. S. 495	13, 14, 15
Chrysler Corp. v. *United States*, 316 U. S. 556	10, 11
Hartford-Empire Co. v. *United States*, 323 U. S. 386, 324 U. S. 570	5
Hughes v. *United States*, 342 U. S. 353	11
Katzinger Co. v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394	7
Mercoid Corp. v. *Midcontinent Co.*, 320 U. S. 661	13
Morton Salt Co. v. *Suppiger Co.*, 314 U. S. 488	13
Steelman v. *All Continent Co.*, 301 U. S. 278	10
United States v. *Swift & Co.*, 286 U. S. 106	10
Miscellaneous:	
Pomeroy, *Equity Jurisprudence* (5th ed.), Sec. 231 *et seq*	10

406336—56——1

In the Supreme Court of the United States

OCTOBER TERM, 1956

No. 11

UNITED STATES GYPSUM COMPANY, APPELLANT

v.

NATIONAL GYPSUM COMPANY, ET AL.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

MEMORANDUM FOR THE UNITED STATES

STATEMENT

The case is here on appeal from an order of the district court which modified the final judgment entered in a civil proceeding brought by the United States charging the present appellant and the corporate appellees with violating the Sherman Act. There have been three prior appeals to this Court.

The first was from the judgment of dismissal entered following the close of the Government's evidence, upon the ground that no right to relief had been shown. In March 1948 this Court reversed, holding that, on such evidence, "violation of the Sherman Act

is clear." 333 U. S. 364, 401. After remand and defendants' proffer of proof, the trial court granted the Government's motion for summary judgment. Judgment was entered on November 7, 1949, and both the United States and the present appellant, United States Gypsum Company (USG), appealed. USG's appeal was dismissed (339 U. S. 959), but on the Government's appeal this Court upheld the Government's contention that the judgment's injunctive and compulsory-licensing provisions should be made more stringent (340 U. S. 76, 90–95). Following the second reversal, final judgment against the defendants was entered on May 15, 1951.

This Court's second *Gypsum* opinion established that the defendants, constituting substantially all the members of the industry, violated the Sherman Act when they concertedly entered into uniform patent licensing agreements providing for fixing prices. 340 U. S. 76, 86–88. By the agreements, USG licensed the other defendants under its gypsum board patents and required each licensee to sell gypsum board at not less than the price at which USG sold. In July 1941, about a year after the filing of the Government's complaint, USG notified its licensees that it was suspending price fixing "until we decide again to exercise our right to do so," and the district court has found that USG has not subsequently fixed prices pursuant to the licenses (R. 1150–1151).

Shortly after this Court's first *Gypsum* opinion in March 1948, the four corporate appellees stopped paying royalties to USG. The final judgment entered on

May 15, 1951, declared that the license agreements between USG and the other defendants were "illegal, null and void" (Art. IV), and required USG to license its gypsum-board patents at a reasonable royalty to any applicant therefor (Art. VI). Appellees National Gypsum Company (National) and Certain-teed Products Corporation (Certain-teed) applied for and obtained such licenses, retroactive to the date of the judgment, but appellees Ebsary Gypsum Company (Ebsary) and Newark Plaster Company (Newark), as to whom the case is now moot,[1] did not seek or obtain new licenses.

Early in 1953, USG instituted separate suits against Certain-teed and National in the United States District Court for the Northern District of Iowa, seeking a money judgment by reason of the defendant's use of USG's patents during the March 1948-May 1951 period. Each complaint was in five alternative counts. Count I was for the royalties payable under the defendant's prior license agreements; count II for royalties payable under this agreement as allegedly amended; count III for use of USG's patents under circumstances implying a promise to pay; count IV for the reasonable value of such use (*quantum meruit*); and count V for infringement. Like suits were brought in other federal district courts against Ebsary and Newark. A few months later, each of these defendants filed in the court below a petition asking that prosecution of the foregoing suits be enjoined. National, Newark, and Ebsary each prayed that the court

[1] See first note on page 3 of USG's brief.

modify its final antitrust judgment so as to require USG to dismiss its pending suits (R. 612–613, 668–672). Certain-teed prayed for similar injunctive re-relief without requesting modification of the antitrust judgment (R. 665).

The petition filed by the Government in the court below alleged that the final antitrust judgment barred prosecution of any claim based in whole or in part on any of the license agreements declared to be illegal, null and void, and prayed that prosecution of any such claim be enjoined. In that petition the Government did not express any view as to whether the antitrust judgment barred the alternative claims set forth in USG's suits against its former co-defendants, or as to whether the court should enjoin prosecution of these alternative claims. (R. 739–741.)

The opinion of the district court,[2] which was rendered after USG had answered the petitions and after briefs and argument, held that prosecution of all counts of the USG suits should be enjoined (R. 975, 1015). The court, in so holding, ruled as follows:

It had jurisdiction to grant the relief requested by the petitioners (R. 979–87). Prosecution of Counts I and II, which set forth claims based on the voided license agreements, violates the antitrust judgment

[2] The court, as reconstituted, was composed of retired Circuit Judge Kimbrough Stone, and Judges Cole and Worley of the United States Court of Customs and Patent Appeals. During the prior antitrust proceeding the district court had consisted of Circuit Judge Harold M. Stephens and Judges Garrett and Jackson of the United States Court of Customs and Patent Appeals. (R. 669, 817–8)

and should be enjoined (R. 987–98). The judgment did not allow or forbid USG's other claims (R. 1001), but it should be modified to enjoin these claims. The reasons for modification were: The *indebitatus assumpsit* claim (count III) is "but a left-handed, indirect method for recovering" the royalties provided in defendants' illegal license agreements (R. 1008–9). The infringement claim (count V) should be barred because USG's co-conspirators had "conditioned their business operations" upon continued use of USG's patents, and because of the "teaching" of *Hartford-Empire Co.* v. *United States,* 323 U. S. 386, 324 U. S. 570 (R. 1006–8). The *quantum meruit* claim (count IV) should be barred because USG had not established that it had purged itself of its patent misuse and prosecution of the claim would "weaken the effectiveness" of the antitrust judgment (R. 1009–15).

A dissenting opinion filed by Judge Cole expressed the view that in a Government antitrust proceeding "the United States can be the sole spokesman for the public interest" and that in such litigation the main action should not be "encumbered with extraneous issues of a private nature" (R. 1016–7), and that therefore any relief granted should be confined to that which the Government had requested (R. 1018–9).

The court subsequently filed findings of fact (R. 1144–55), conclusions of law (R. 1155–58), and a decree which modified the judgment of May 15, 1951, by adding a paragraph which directed USG to dismiss with prejudice its pending actions against its former co-defendants (R. 1159–60).

THE GOVERNMENT'S INTEREST IN THE QUESTIONS PRESENTED BY THE APPEAL

The Jurisdiction of the District Court. USG's brief urges (pp. 26–36) that the district court was without jurisdiction to entertain and act upon the petitions presented to it. The question thus raised involves the jurisdiction of the court below to protect the integrity of its antitrust judgment, and to modify that judgment when the requested modification raised issues closely related to the proceedings and adjudications eventuating in entry of final judgment. The jurisdictional question is therefore one which is of concern to the Government. We shall set forth our reasons for believing that this Court should sustain the district court's ruling as to its jurisdiction. See *infra*, pp. 9–12.

USG's Claim to Royalties Payable Under the Voided License Agreements. The validity of this claim is of concern to the Government. Article IV of the antitrust judgment adjudged the various patent license agreements to which the defendants were parties "unlawful under the anti-trust laws of the United States and illegal, null and void" (R. 567). Plainly no cause of action can be grounded upon the agreements thus voided. Maintenance of an action based on these agreements is an attempt to defeat the judgment. Article IV was incorporated in the judgment in the face of USG's contention that the judgment should declare illegal only the minimum price provisions of the license agreements (R. 994–5), a circumstance which highlights the purpose to nullify

these agreements in their entirety. Moreover, the nullification merely makes explicit the consequences of defendants' violation of the Sherman Act. A patent licensee's "obligation to pay royalties" and its agreement to sell at prices fixed by the licensor "constitute[d] an integrated consideration for the license grant. Consequently, when one part of the consideration is unenforceable because in violation of law, its integrated companion must go with it." *Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394, 401.

We shall not elaborate further on the proposition that the antitrust judgment bars recovery of the royalties payable under the voided license agreements because we understand that on this appeal USG is not contending that the judgment permits such recovery. USG admits (Br. 66) that the judgment "may be pleaded as a defense in any subsequent suit" on the agreements. It merely urges (Br. 65) that, since the judgment did not enjoin enforcement of the agreements, suit thereon does not "violate" the judgment, further explaining (*ibid.*) that it included counts I and II in the suits against its former co-defendants in the belief that it was "a proper precaution" to state "all possible theories of recovery."

USG's Infringement and Quantum Meruit Claims. The antitrust judgment enjoined each defendant from doing certain things by agreement among themselves or other manufacturers of gypsum products (Art. V, R. 567), and it required USG to grant

licenses under its gypsum board patents as there specified. (Art. VI, R. 567–70).[3] Regardless of whether USG is or is not entitled to recover by reason of the use made of its patents by National and Certain-teed during the pre-judgment 1948–1951 period, the prohibitions or commands of the judgment would remain in effect.

USG's appeal primarily attacks the district court's application of the so-called patent misuse doctrine, both in holding that certain admitted facts showed misuse by USG continuing to the time of the court's decision, and in holding that misuse could be determined as a matter of law without taking evidence (USG Br. 36–62). The Government has a broad interest in the patent misuse doctrine because of the effect it may have in deterring violation of the antitrust laws. We are not concerned, as such, with the question whether the doctrine bars a particular patentee, on particular facts, from enforcing his patents. We shall therefore not support or oppose the conclusions which the district court reached on the specific facts of this case, but shall discuss what we understand to be the doctrine's rationale and scope, in the context of the general factual circumstances which the district court deemed significant or determinative. See *infra*, pp. 13–17.

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[3] The other provisions of the judgment are not relevant to the issues now before this Court, except that the terms on which the court retained jurisdiction of the cause (Art. X, R. 571–2) may be relevant to the question whether the district court acted within its jurisdiction in entering the order which has been appealed.

DISCUSSION

I. The district court had jurisdiction to require USG to dismiss its pending suits against its former co-defendants

By Article X of the judgment the court below retained jurisdiction of the cause for the purpose of enabling any party—

> to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith.

We submit that the Government and the other petitioners below presented a matter squarely within the above retention of jurisdiction when they asked the court to enjoin prosecution of any claim for royalties payable under the licenses which the judgment declared to be null and void. The "null and void" adjudication would be meaningless and futile if it permitted suit on the voided agreements. Irrespective of whether such suit would support a contempt citation, absent an express injunction against suit, implementation of the judgment by barring suit, when occasion for such implementation arose, is an order appropriate or necessary for the "construction or carrying out" of the judgment.

The district court therefore was plainly empowered to grant part of the relief sought by the petitioners below, and USG never sought to sever consideration of the prayers for such relief from the prayers for relief the granting of which might be considered an

enlargement of the prohibitions of the final judgment.[4] Moreover, by Article X of the judgment, the court reserved jurisdiction to entertain and act upon the application of any party for "modifications" and "vacations" of the judgment provisions for the purpose of "carrying out" the judgment. When the corporate appellees asked that USG be enjoined from maintaining infringement or *quantum meruit* claims based on the use of patents which had been the fulcrum of defendants' price-fixing conspiracy and thus had been "misused", this presented an issue of whether the requested modification "served to effectuate * * * the basic purpose of the original consent decree." (*Chrysler Corp.* v. *United States,* 316 U. S. 556, 562), and hence came within the Article X reservation of jurisdiction. We therefore submit that the court's jurisdiction is clear.

Irrespective of the express reservation of jurisdiction in Article X, the antitrust court had power to modify, by reason of the inherent power of a court of equity to modify its judgment when new facts or circumstances indicate the need for modification. *United States* v. *Swift & Co.*, 286 U. S. 106, was an appeal from an order of a district court modifying

[4] While we concern ourselves in the ensuing discussion with the cases dealing explicitly with modifications of antitrust judgments, it also seems pertinent to note the traditionally broad powers and discretion of a court of equity, when it has the parties and the cause before it, to consider related and ancillary questions which are outstanding and to grant, when the circumstances are deemed to warrant it, a full measure of relief calculated to avoid the splintering of litigation. See, generally, Pomeroy, *Equity Jurisprudence* (5th ed.), Section 231 *et seq.* Cf. *Steelman* v. *All Continent Co.*, 301 U. S. 278, 289–290.

its final judgment in an antitrust proceeding. This Court, after noting that by the terms of the judgment power to modify was reserved, said (p. 114):

> If the reservation had been omitted, power there still would be by force of principles inherent in the jurisdiction of the chancery. A continuing decree of injunction directed to events to come is subject always to adaptation as events may shape the need.

Power to modify, as distinct from a proper exercise of this power, was expressly recognized in *Hughes* v. *United States,* 342 U. S. 353, 357, and in Mr. Justice Frankfurter's dissenting opinion in the *Chrysler* case, *supra,* 316 U. S. at 567.

The Government also disagrees with USG's contention (Br. 30–32) that the district court lacked jurisdiction to make any change in the judgment not sought by the Government. The cases which USG cites involved judgment changes sought by intervenors or would-be intervenors in antitrust proceedings brought by the Government. The courts properly have refused to permit third parties to interject into the main cause of action controversies affecting their interests. But those who, as here, were parties to the cause and subject to the judgment which was entered are entitled to seek modification, and the relief which the court has power and jurisdiction to grant is not confined to relief which the Government also requests. The views of the Government should, of course, be given consideration, whether it opposes, supports, or remains neutral respecting the proposed change in the judgment.

Where a Government antitrust proceeding involving patent misuse has resulted in final adjudication of violation of the antitrust laws, the question whether the patentee has purged itself of its misuse is likely to be intimately related to the scope of the adjudication of violation and to the various steps in the antitrust proceeding leading to entry of final judgment. Certainly in both of these respects the question of purge in the instant case is intimately related to the original proceeding. USG and the corporate appellees appear to be wide apart in their interpretations of the scope and basis of the antitrust violation which was adjudicated. In addition, these opposing parties differently view the effect and significance, with respect to the purge issue, of various acts or steps taken in the proceedings leading up to the final antitrust judgment. In these or like circumstances, the antitrust court plainly is the court most competent to determine the purge issue. It is also the only court competent to render a decision binding on all parties to the antitrust litigation. If that court is without jurisdiction, the purge issue, which turns at least in part on the interpretation of the antitrust adjudication and judgment, is open to diverse and conflicting rulings in the various federal district courts in which the issue may arise.

We submit that the provisions of the final antitrust judgment, the equity court's inherent power to revise a judgment governing future conduct, and impressive policy considerations all support the jurisdiction of the district court to make the order which has been appealed.

II. The scope and force of the patent misuse doctrine, in relation to the requisite showing of purge

USG unquestionably misused its patents, at least during the operative period of the conspiracy among those who were defendants in the Government's antitrust proceeding. Such misuse, until purged, bars the patentee from enforcing the exclusive rights conferred by the patent grant.

This "patent misuse" doctrine is applicable irrespective of any prior adjudication that the patentee had violated the antitrust laws. In the cases in which this Court enunciated and applied the doctrine, there had been no such adjudication. *Morton Salt Co.* v. *Suppiger Co.*, 314 U. S. 488; *B. B. Chemical Co.* v. *Ellis*, 314 U. S. 495; *Mercoid Corp.* v. *Midcontinent Co.*, 320 U. S. 661, 669. The doctrine's rationale is that "courts, and especially courts of equity, may appropriately withhold their aid where the plaintiff is using the right asserted contrary to the public interest". *Morton Salt* case at 492. The Court in that case further stated that where a patent is used as a means of restraining competition with the patentee's sale of an unpatented product, successful prosecution of an infringement suit tends to thwart "the public policy underlying the grant of the patent". *Id.*, at 493. In further elaboration, this Court said (*ibid.*):

> Equity may rightly withhold its assistance from such a use of the patent by declining to entertain a suit for infringement, and should do so at least until it is made to appear that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated.

In the decisions cited, patent misuse was contemporaneous with suit upon the patent. There was therefore no occasion to determine the circumstances which will establish abandonment of misuse and dissipation of its consequences sufficient to leave the patentee free again to enforce his patent, except that *B. B. Chemical Co.* held that abandonment on appellate review after adverse decision below is insufficient. In that case the petitioner patentee had suggested that it was entitled to relief because it was contemporaneously willing to grant patent licenses free from competition-restraining provisions, but this Court said (314 U. S. at 498):

> It will be appropriate to consider petitioner's right to relief when it is able to show that it has fully abandoned its present method of restraining competition in the sale of unpatented articles and that the consequences of that practice have been fully dissipated.

Automatic Radio Co. v. *Hazeltine, Inc.*, 339 U. S. 827, was a suit by a patentee for royalties payable under a patent license. The licensee asserted patent misuse as a defense, and one aspect of the alleged misuse was a license provision which required the licensee to attach to products manufactured thereunder a notice stating that the product was licensed only for certain specified uses. This Court, in affirming judgment for the patentee, held (p. 835) that the fact that the patentee had not enforced the notice requirement and had authorized substitution of a non-restrictive notice rendered moot the legality of the notice provision of the license agreement.

The showing requisite to establishing purge—*i. e.*, full abandonment of the restrictive practice, and full dissipation of its effects—involves a number of factors, such as the character of the patent misuse, its duration, and the finality of the patentee's abandonment thereof. These and other pertinent factors, and their respective importance, necessarily vary from case to case. Thus, where, as here, misuse was clear and tied to a conspiracy of a broad and continuing nature, the required showing may be different than where the misuse consisted of including trade-restraining provisions in a patent license. We believe, therefore, that only limited guidance is furnished by the decisions cited by USG (Br. 56–60) in which patentees were held, in other circumstances, to have established purge.

It may be taken as settled that the misuse which is a bar to recovery does not automatically terminate with discontinuance of the misuse. *B. B. Chemical Co., supra,* 314 U. S. at 498. Whether the patentee's discontinuance of the improper practices, without cancellation of the license provisions which would authorize a resumption of such practice, constitutes a purge, would appear to depend upon all the attendant relevant circumstances. Cf. *Hazeltine* case, *supra,* 339 U. S. at 835.

What constitutes a purge obviously determines the scope and force of the patent misuse doctrine. To the extent that a patentee may readily free himself from the taint resulting from misuse of his patent, the misuse results in no substantial impairment of the rights which the patent grant confers. While

the Government does not suggest that the misuse doctrine should be viewed as in the nature of a penalty imposed for patent licensing which improperly extends the monopoly privileges conferred by a patent, we urge that where such misuse has been established it should bar enforcement of these privileges until the patentee has clearly and affirmatively shown not only that the improper use has ended, but also that the effects of the misuse are a thing of the past.

Application by this Court of rigorous standards for determining the required showing of purge should prove a strong deterrent against licensing patents with trade-restraining provisions not within the specific monopoly rights given by patent law. A decision by this Court laying down such standards would mean that a patentee would weigh the advantages which might be gained by reason of license provisions which overstep these exclusive rights, against the disadvantage of a period during which the patentee could not enforce his patent rights if it should be judicially determined that he had overstepped rights conferred by the patent grant.

We recognize that a patent license requires both a willing licensor and a willing licensee and that, under the misuse doctrine, a licensee may be able to use the patents of the licensor for a limited period without paying compensation therefor. Strict requirements as to what must be shown to establish purge may benefit those who are licensees under trade-restraining license agreements, and theoretically this will be an inducement to licensees to enter into such agreements. But agreements of this kind ordinarily are either

wholly for the benefit of the patentee (such as those with tie-in provisions) or they result from the patentee's possession of a patent of such importance and value that potential licensees do not dare risk suit for infringement and are therefore willing to accept licenses on the terms dictated by the patentee. On balance, therefore, we believe that considerations of antitrust policy support the view that the patentee who claims that he has ceased to misuse a patent should be required to show clearly and convincingly that there has been a purge. As previously stated, the Government's interest in this aspect of the case is limited to a concern that appropriate standards be adopted. We intimate no view as to the result which this would require as applied to the particular facts of this case.

CONCLUSION

For the foregoing reasons, this Court should hold that the district court had jurisdiction to enter the order which has been appealed. In determining whether in the circumstances of this case purge had been adequately established, the Court should apply sufficiently rigorous standards to make the patent-misuse doctrine an effective deterrent against violation of the antitrust laws.

Respectfully submitted,

J. LEE RANKIN,
Solicitor General.
VICTOR R. HANSEN,
Assistant Attorney General.
CHARLES H. WESTON,
EDWARD KNUFF,
Attorneys.

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